

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 04 PRETORIA 004109

SIPDIS

SENSITIVE

DEPT FOR AF/EPS/CTRIMBLE, AF/S
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
TREASURY FOR BCUSHMAN, BRESNICK
DEPARTMENT PLEASE PASS TO USTR FOR CHAMILTON

E.O. 12958: N/A

TAGS: [ETRD](#) [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [XA](#) [SF](#)

SUBJECT: SOUTH AFRICA: POST'S VIEWS ON ANNUAL AGOA
ELIGIBILITY

REF: SECSTATE 170577

(U) This cable is Sensitive But Unclassified. Not for
Internet Distribution.

1. (SBU) Embassy recommends continued AGOA eligibility for South Africa, based on the country's general compliance with the eligibility criteria. South Africa has continued to make progress in deepening its market-based economy, respecting the rule of law, protecting worker rights, implementing policies to reduce poverty, and combating corruption. The government is a multiparty parliamentary democracy. Specific information relating to AGOA eligibility criteria follows in the refTel-specified format.

Country Background

2. (SBU) At midyear 2005, the population of South Africa was estimated to be 46.9 million. In 2004, South African Gross National Income (GNI) was \$165 billion; GNI per capita was \$3630 (World Bank). In 2004, U.S.-South Africa two-way trade grew 17%, totaling \$8.9 billion. U.S. exports increased 10% to \$3.0 billion. South African exports to the United States grew 21% to \$5.9 billion. In 2004, AGOA exports grew 7% after having grown 24% in 2003. South Africa is the 32nd largest trading partner of the United States, equivalent to Norway or Chile, and is the largest U.S. export market in sub-Saharan Africa -- twice the size of Nigeria and equal to Russia. In September 2005, South Africa led the Southern African Customs Union delegation in restarting free trade agreement negotiations with the United States.

Comments on Eligibility Requirements

1. Market-based Economy

3. (SBU) South Africa continues to make progress in deepening its market-based economy. Government expenditure as a percentage of GDP is lower than the OECD average. The government has set sound macroeconomic objectives, and has managed to successfully control inflation and the fiscal deficit. Years of fiscal discipline by the SAG are making it possible for the government to reduce the interest cost of the national debt, lower marginal tax rates, and increase government expenditures on social programs and capital expenditures.

4. (U) Inflation (CPIX, consumer price inflation less the change in mortgage costs) has been brought down from 9.3% in March 2003 to 4.8% in August 2005 -- well within the central bank's target range of 3-6%. In 2005, headline inflation (CPI) dropped to 1.6% largely as a result of lower import costs and falling interest rates. Strong fundamentals, comparatively high interest rates, and the view that the rand is essentially a commodity-based currency have kept the value of the rand strong. In September 2005, the value of the rand in dollar terms was approximately the same it was a year ago, i.e., R6.5/\$1. The South African Reserve Bank last cut its repurchase rate in April 2005, lowering the rate to 650 basis points below what it was in 2002. This has translated into equal cuts in the prime rate, boosting business confidence in the economy and consumer spending.

5. (U) On the strength of the private sector, the economy has achieved a record 28 quarters of continuous growth. In 2004, economic growth was 3.7%, the highest in five years. In 2005, the forecast for growth is 4.0% or more. However, the strong rand has been problematic for labor-intensive industries and exporters of all kinds, especially for textiles and apparel. Notwithstanding this strong record of growth, poverty and unemployment remain serious issues. Researchers estimate that the country needs 6.0% growth for a decade or more to halve unemployment (i.e., to reach an official unemployment rate of 15%). In an effort to stimulate faster growth, generate employment, and improve the country competitiveness, government will invest \$30 billion

in infrastructure over the next five years, much of which on the strength of the balance sheets of large state-owned enterprises.

16. (SBU) The economy is still encumbered by layers of bureaucratic regulation that can inhibit domestic and foreign investment in some areas. Many government departments and agencies suffer severe capacity constraints, and have thus been unable to implement programs on time and with minimal confusion. Although supportive of the aims of the government's Black Economic Empowerment (affirmative action) program, U.S. firms continue to have questions about the implementation of regulations and provisions calling for equity ownership by and procurement from members of formerly disadvantaged groups in South Africa. Some analysts believe that confusion surrounding this key government program has deterred foreign direct investment.

II. Political Pluralism/Rule of Law/Due Process

17. (SBU) In April 2004, South Africa held free and fair elections in which the ruling African National Congress (ANC) won nearly 70% of the vote. The Cabinet includes 27 ministers from the ANC and one from the Azanian People's Organization (AZAPO). Seats in the Parliament's National Assembly are allocated based on the percentage of votes each party receives. In the 2004 elections, the ANC won 279 of the 400 seats in the Assembly, followed by the Democratic Alliance, which won 50 seats, and the Inkatha Freedom Party, which took 28. A subsequent "floor-crossing" period in September 2005, in which MPs were allowed to change parties, resulted in the ANC gaining 14 more seats for a total of 293.

18. (SBU) The government respects the rule of law but inadequate training and resources result in uneven implementation. Violent crime is high and this strains the judicial system. The Constitution's bill of rights provides for due process including the right to a fair and public trial within a reasonable time of being charged, and the right to appeal to a higher court. All branches of government generally respect the right to due process.

III. Elimination of Barriers to U.S. Trade and Investment

19. (SBU) Between June 2003 and June 2004, the U.S. and the Southern African Customs Union (SACU) South Africa, Botswana, Lesotho, Namibia, and Swaziland) held six rounds of negotiations on a free trade agreement (FTA). After progress stalled in the fall of 2004, former U.S. Trade Representative Robert Zoellick and his SACU counterparts met to discuss how to move forward. SACU ministers reaffirmed their commitment to a comprehensive free trade agreement and delegated oversight of the negotiations to their deputies, who met in July 2005 to agree to a negotiating framework. In September 2005, negotiations resumed in Gaborone, where the two sides planned smaller negotiating rounds and expert-to-expert consultations on issues new to SACU. In addition, substantive progress was achieved in the area of nonagricultural market access. The talks have served to clarify to U.S. negotiators where there are barriers to trade and investment. A successful FTA presents the best prospect of eliminating these barriers.

110. (SBU) South Africa is a leading member of the G-20 group of emerging market countries in WTO negotiations. It has been a vocal advocate for special and differential treatment and improved market access for developing countries. We continue to stay in close contact with South Africa in the effort to advance the Doha Development Agenda.

IV. Economic Policies to Reduce Poverty

111. (SBU) President Mbeki has made the reduction in poverty and raising the level of employment cornerstones of his second term in office. Government introduced programs to supply free basic water and electricity to all, and has been working to expand its low and no-income housing programs. Government has increased its social welfare grants program to cover growing numbers eligible for the child support grant. It has also increased welfare grants going to old age pensioners, foster care (important to the growing number of HIV/AIDS orphans), and the disabled. In 2004, Mbeki launched the Expanded Public Works Program, a major new jobs initiative similar to U.S. depression era work programs. The objective is to create one million temporary jobs, and in so doing impart skills and bring more unemployed into the mainstream workforce. Government continues to commission research to better understand the dimensions of poverty, the poverty gap, and to establish a poverty line so as to be able to monitor success.

112. (SBU) In February 2005, Finance Minister Trevor Manuel presented this year's budget to Parliament. Once again the government increased spending on pro-poor social services, welfare grants, education, and HIV/AIDS programs. Over the next five years, the government, mostly through its

state-owned enterprises, will lead investment in port, rail, dam, power and other infrastructure projects in an effort to improve country competitiveness and spur growth.

13. (SBU) An area of particular concern for economists and the government is the shortage of skilled professionals. After the successful effort to make basic and secondary education universally available, the quality of South African schools remains uneven. Critics increasingly focus on problems with the education system and inadequacies in vocational training programs for not producing the skills that the country needs.

V. System to Combat Corruption

14. (SBU) South Africa has an excellent anticorruption regulatory framework, highlighted by the passage of the Prevention and Combating of Corrupt Activities Act of 2004. For the first time, the Act defined the scope of corrupt activities and thus is a welcome complement to other anticorruption laws. President Mbeki has made the fight against corruption a hallmark of his administration, most notably by dismissing Deputy President Jacob Zuma after his financial advisor was convicted of corruption relating to Zuma's support for a high dollar contract with the French. In addition, the ruling ANC ousted five MPs from the party and Parliament who were found guilty of pocketing Parliamentary travel funds.

15. (SBU) Despite these and other advances, there is still the widespread view that corruption is prevalent within government, particularly within the South African Police Service, the Department of Home Affairs, and the Department of Transport. Inadequate funding for law enforcement creates an incentive for corruption. While South Africa's anticorruption regulatory framework is excellent, consistent enforcement of anticorruption laws is required to overcome these perceptions and change behavior in government and the private sector.

VI. Protection of Workers' Rights

16. (SBU) Many employers complain of rigidities in labor law when it comes to hiring and firing, and the payment of benefits. For this reason, a system of labor brokers has developed whereby labor contracts are outsourced. Unions worry about this workforce "casualization" along with sizable layoffs in mining and manufacturing caused by the strong rand. Today, there are fewer workers covered by formal employment contracts or collective bargaining agreements than ten years ago. In addition, the expiration of the Agreement on Textiles and Clothing and Chinese competitiveness has resulted in layoffs and plant closures in the textiles and apparel industry.

17. (SBU) Employers in the textiles and clothing industry continue to be anti-union and poor working conditions are common. However, court decisions in 2005 have confirmed that bargaining council wage agreements in the textile industry apply even to non-participating employers. Similarly, the Minister of Labor recently expanded coverage of a sectoral minimum wages and working conditions determination for the taxi industry as well.

18. (SBU) Enforcement of labor laws in commercial farming remains difficult. Economic migrants, especially from Zimbabwe, are willing to work for subsistence and resist coming to the attention of the authorities for fear of deportation.

19. (SBU) The South African government is ahead of its targets in implementing child benefits grants now available to children under the age of 14, but the growing number of AIDS orphans continues to fuel child labor, especially in agriculture and street vending. Child sexual exploitation continues to be an issue. The Child Labor Action Program is still being costed, but should be presented to Cabinet later this year.

VII. U.S. Security/Foreign Policy Interests

20. (SBU) No comment.

VIII. Human Rights/International Terrorism

21. (SBU) South Africa has ratified nine of the twelve U.N. counter terrorism conventions and protocols as well as the African Union Convention on the Prevention and Combating of Terrorism. The three outstanding that are at some stage of ratification are Safety of Maritime Navigation, Safety of Fixed Platforms on the Continental Shelf, and Protection of Nuclear Material. In May 2005, South Africa enacted comprehensive anti-terrorism legislation entitled the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, which required citizens and financial institutions to report suspicious activity to law enforcement and allowed terrorist assets to be seized. In July 2005,

South Africa assumed the Presidency of the Financial Action Task Force, an intergovernmental organization that combats money laundering and terrorist financing. South Africa needs to take stronger steps to secure its identity documents.
TEITELBAUM